

Research Bulletin

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Outsourcing Provides Indirect Support for Business Reengineering

IT outsourcing is frequently associated with business reengineering. Many outsourcing contracts have apparently been initiated by organisational restructuring exercises and others by the need to rebuild critical information systems and provide improved information technology support for the business. Outsourcing is beginning to be seen as a real threat to the continued growth of the systems integration market, as large development projects increasingly arise in an outsourcing rather than a project context.

However, there is an alternative model that states that outsourcing is primarily concerned with improving an organisation's core business focus. On this basis, only secondary, non-core activities should be outsourced, excluding, presumably, any activities that make a major contribution to business re-engineering initiatives.

In the first of these models, outsourcing is a key instrument in the

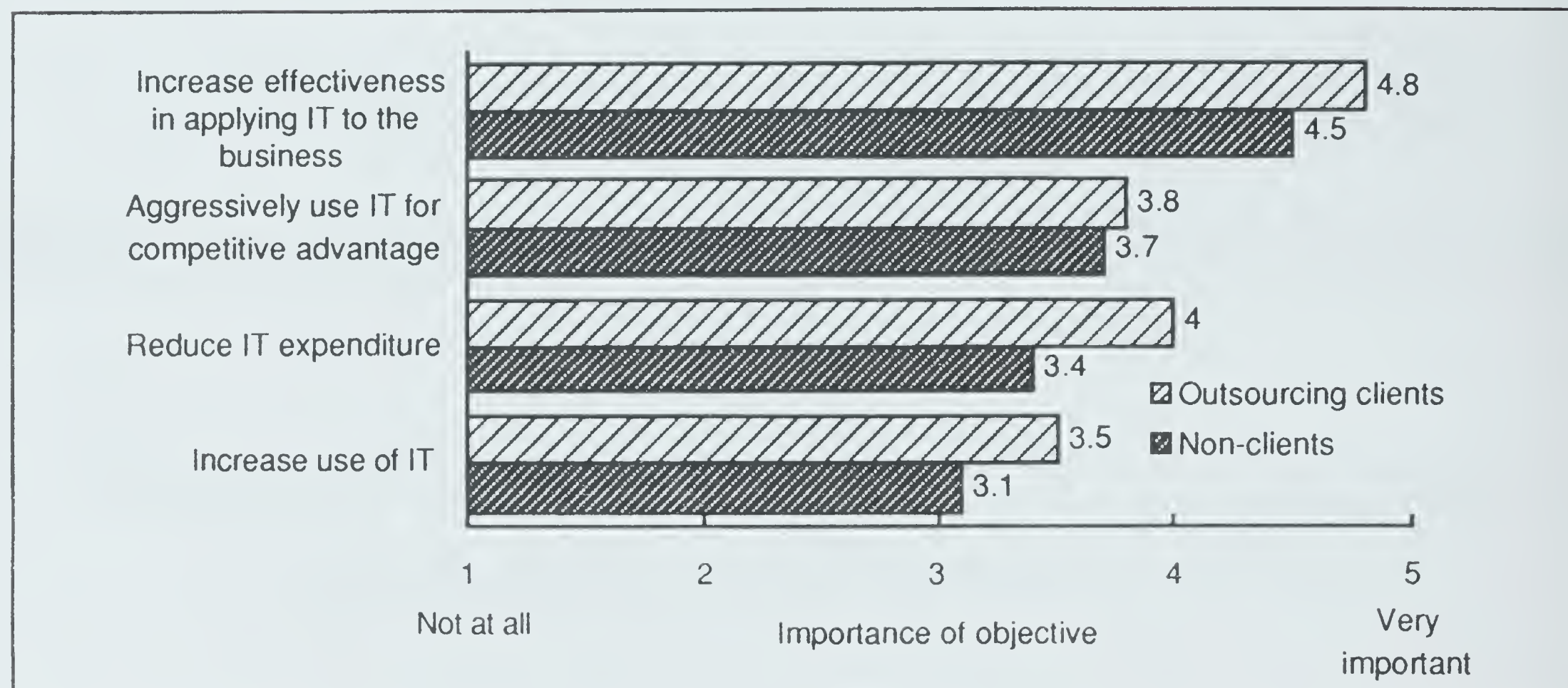
implementation of business reengineering; in the second, it is essentially a cost reduction tool for organisations that place a low priority on their use of information technology.

A key question is, "Which, if either, of the models applies to Europe?" Research indicates that the majority of situations occupy a position between these two extremes. In practice, executives within organisations that have adopted IT outsourcing typically:

- Are enthusiastic about applying information technology to their business
- View information technology as an important source of reengineering initiatives
- Perceive outsourcing and reengineering to be culturally highly compatible, but view IT outsourcing to mainly provide indirect support for reengineering initiatives.

Exhibit 1

Corporate IT Objectives



Sample of 30 executives within outsourcing clients and 60 within non-clients.

Standard error = 0.2 Source: INPUT

Outsourcing Clients are Enthusiastic about Information Technology

Exhibit 1 provides evidence to refute the suggestion that organisations that adopt IT outsourcing are less enthusiastic about the application of information technology than organisations that retain their entire IT function in-house.

Approximately 60% of executives in both types of organisation strongly perceive the pro-active use of information technology to be important. Similarly, the overwhelming majority of executives strongly believe that it is important to increase the effectiveness with which information technology is applied to their business. Perhaps surprisingly, executives within organisations that already use IT outsourcing are

significantly more committed to increasing their use of IT than their counterparts. However, these executives are simultaneously strongly committed to reducing their organisation's IT expenditure.

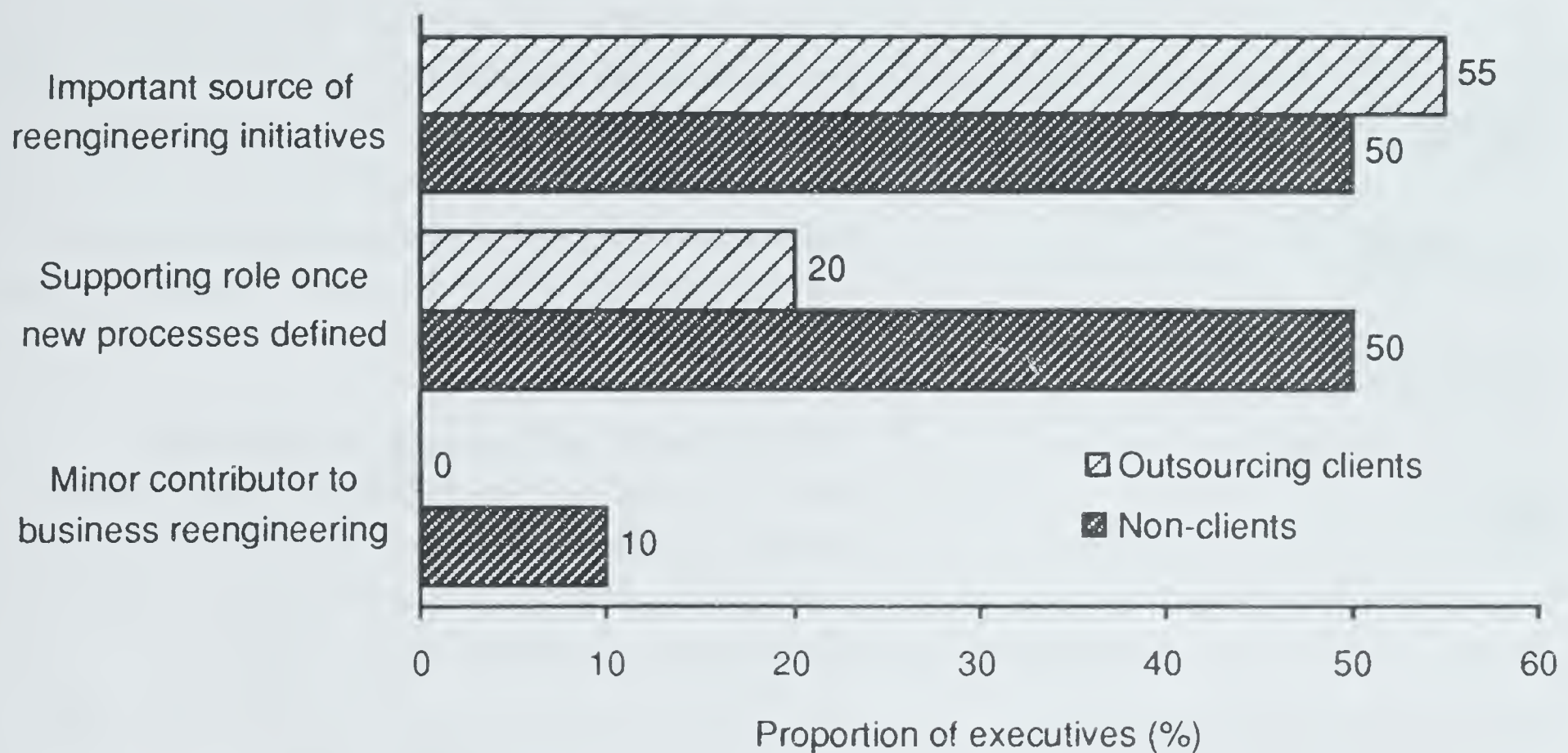
In terms of overall objectives, organisations that have adopted IT outsourcing are as equally committed as other organisations to gaining business benefit from information technology, and may be more likely to extend their use of information technology. However, executives in these organisations typically want to achieve these objectives while simultaneously reducing costs.

IT Viewed as Important Source of Reengineering Initiatives

Exhibit 2 shows European executives' perceptions of the role of information technology within reengineering.

Exhibit 2

Role of IT within Business Reengineering



Sample of 30 Outsourcing clients and 60 non-clients.
Proportion of executives giving a score of 4 or 5.

Standard error = 10% Source: INPUT

Contrary to their public image, European executives are often enthusiastic about the role of information technology within business reengineering initiatives. The majority of executives in France and Germany, within organisations that have not adopted IT outsourcing, strongly perceive information technology to be an important source of reengineering initiatives. However, executives in the U.K. are more hostile to information technology and only a quarter of executives share this view.

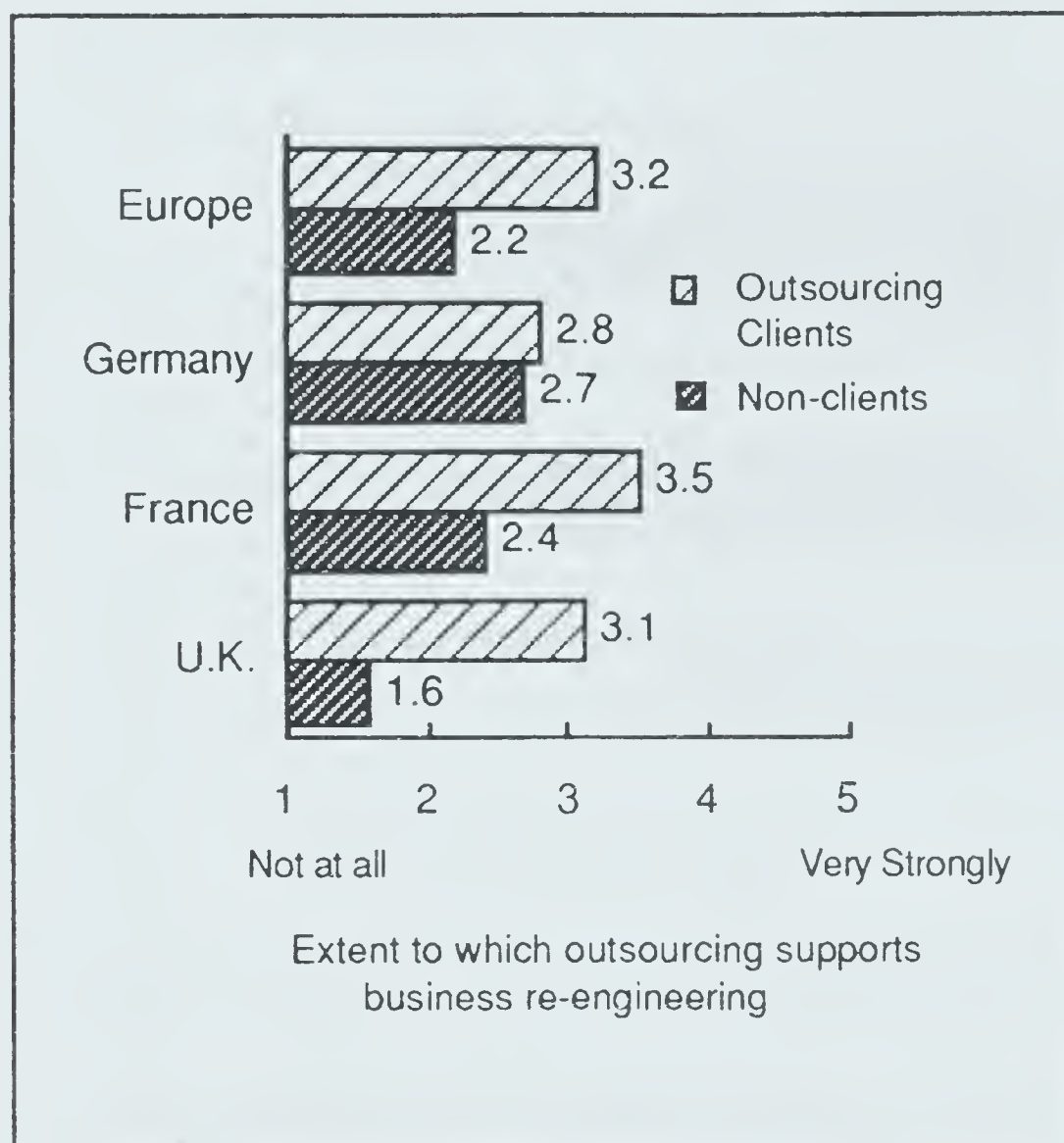
Executives within organisations that have already adopted IT outsourcing are more enthusiastic about the role of information technology than their counterparts.

None of the executives in organisations already outsourcing regarded information technology to be only a minor contributor to reengineering and only 20% of them strongly perceived information technology to play primarily a supporting role rather than a pro-active one.

Outsourcing and Reengineering Perceived to be Culturally Compatible

Exhibit 3 identifies the extent to which outsourcing is perceived to support business reengineering by country.

Exhibit 3

Outsourcing and Business Reengineering

Sample of 30 outsourcing

Source: INPUT

clients and 60 non-users. Standard error = 0.2.

Overall, outsourcing clients take a much more favourable view of IS outsourcing's ability to support business reengineering than do executives in general. The majority (55%) of executives, within organisations that have already adopted IT outsourcing strongly perceive IT outsourcing to be supportive of business reengineering. In contrast only a minority of executives (25%) in organisations that have not adopted IT outsourcing perceive it to strongly support reengineering.

The views of executives in organisations that have not adopted IT outsourcing differ significantly by country.

Approximately a third of executives within this type of organisation in France and Germany believes there to be strong links between outsourcing and business reengineering. On the other hand,

executives in the U.K. are almost unanimous in dismissing the relevance of IT outsourcing in supporting business reengineering. However, this negative perception of executives in the U.K. is not limited to outsourcing. These executives take a much more negative view of the relevance of information technology to reengineering than do their counterparts in France and Germany.

Information technology is typically perceived to play a pro-active role within reengineering projects. However, while executives within organisations using IT outsourcing exhibit high levels of enthusiasm for the application of information technology, they characteristically perceive IT outsourcing to provide indirect rather than direct support for reengineering projects.

In particular, outsourcing and reengineering are perceived to share a similar management philosophy that places a major emphasis on:

- Cost reduction
- Core business focus
- Increased organisational flexibility.

Both outsourcing and reengineering aim to reduce the numbers of personnel directly employed in labour-intensive activities. Indeed one of the outcomes from business reengineering exercises will often be the decision to outsource certain activities.

Outsourcing is also perceived to be supportive of business reengineering by removing management involvement

removing management involvement from an area of day-to-day activity. This consequently frees management resources to concentrate on reengineering initiatives.

Finally IT outsourcing is viewed as supporting reengineering by removing

one of the potential obstacles to change within the organisation, and, at the same time, demonstrating to the rest of the organisation that it is possible to successfully transfer an in-house activity to an external vendor.

This Research Bulletin is issued as part of INPUT's Outsourcing Information Systems Programme — Europe. If you have questions or comments on this bulletin, please call your local INPUT organisation or John Willmott at INPUT, 17 Hill Street, Mayfair, London W1X 7FB, U.K. Tel:+44 (0)71 493 9335.

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INPUT WORLDWIDE

Frankfurt

Sudetenstraße 9
D-35428 Langgöns-
Niederkleen
Germany
Tel. +49 (0) 6447-7229
Fax +49 (0) 6447-7327

London

17 Hill Street
London W1X 7FB
England
Tel. +44 (0) 71 493-9335
Fax +44 (0) 71 629-0179

New York

400 Frank W. Burr Blvd.
Teaneck, NJ 07666
U.S.A.
Tel. 1 (201) 801-0050
Fax 1 (201) 801-0441

Paris

24, avenue du Recteur
Poincaré
75016 Paris
France
Tel. +33 (1) 46 47 65 65
Fax +33 (1) 46 47 69 50

San Francisco

1881 Landings Drive
Mountain View
CA 94043-0848
U.S.A.
Tel. 1 (415) 961-3300
Fax 1 (415) 961-3966

Tokyo

Saida Building, 4-6,
Kanda Sakuma-cho
Chiyoda-ku, Tokyo 101
Japan
Tel. +81 3 3864-0531
Fax +81 3 3864-4114

Washington, D.C.

1953 Gallows Road
Suite 560
Vienna, VA 22182
U.S.A.
Tel. 1 (703) 847-6870
Fax 1 (703) 847-6872